

**THUNDER BAY TRANSPORTATION  
AUTHORITY**

Financial Statements  
September 30, 2006

**STRALEY, ILSLEY & LAMP P.C.**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Thunder Bay Transportation Authority		County Alpena	
Fiscal Year End September 30, 2006		Opinion Date November 30, 2006		Date Audit Report Submitted to State March 29, 2007			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

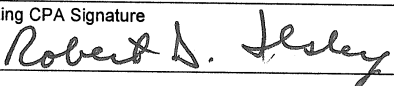
YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Straley, Ilsley & Lamp P.C.			Telephone Number (989) 356-4531	
Street Address 2106 U.S. 23 South			City Alpena	State MI
			Zip 49707	
Authorizing CPA Signature 		Printed Name Robert D. Ilsley		License Number 1101010715

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*Certified Public Accountants*

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### INDEPENDENT AUDITORS' REPORT

Board of Directors  
Thunder Bay Transportation Authority  
Alpena, Michigan

We have audited the accompanying balance sheet as of September 30, 2006 and the related statements of revenue, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the **Thunder Bay Transportation Authority's** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits, contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Thunder Bay Transportation Authority** as of September 30, 2006, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Straley, Ilsley & Lamp*

November 30, 2006

## **Management's Discussion and Analysis**

As management of the Thunder Bay Transportation Authority ("Authority"), we offer readers of the Authority's basic financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended September 30, 2006. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

### **Overview of Financial Highlights**

- The Authority has net assets of \$1.10 million at fiscal year end 2006. These net assets result from the difference between total assets of \$1.19 million and total liabilities of \$83,000.
- Current assets of \$643,000 primarily consist of non-restricted cash and investments of \$583,000 and accounts receivable of \$60,000.
- Current liabilities of \$83,000 consist solely of accounts payable.

### **Basic Financial Statements and Presentation**

The basic financial statements presented by the Authority are the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

The statements are presented using the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Capital assets are capitalized and depreciated, except land, over their estimated useful lives.

The Balance Sheet presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases in assets without a corresponding increase to liabilities results in increased net assets, which indicate improved financial position.

The Statement of Revenues, Expenses and Changes in Net Assets present the operating results of the Authority, as well as the non-operating revenues and expenses. Operating revenues consists primarily of fare box revenue and special transit fares from community transit services. The Authority is also dependent on state and federal operating assistance for its operations.

The Statement of Cash Flows allows financial statement users to assess the Authority's adequacy or ability to generate sufficient cash flows to meet its obligations in a timely manner. The statement is classified into four categories: 1) Cash flows from operating activities, 2) Cash flows from non-capital financial activities, 3) Cash flows from capital and related financing activities, and 4) Cash flows from investing activities.

### **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

## Financial Analysis of the Authority

### Condensed Summary of Net Assets

The Authority did not issue comparative financial statements in 2005, due to this being the first year of the Authority's existence.

	<u>2006</u>
Current assets	\$ 643,000
Capital assets (net of accumulated depreciation)	<u>547,000</u>
Total assets	<u>\$1,190,000</u>
Current liabilities	\$ 83,000
Non-current liabilities	<u>0</u>
Total liabilities	<u>\$ 83,000</u>
Net assets - Unrestricted	<u>\$1,107,000</u>

The largest portion of the Authority's capital assets reflects investment consisting of buses. Those capital assets are used to provide public transportation services for the Alpena, Alcona, Montmorency, and Presque Isle County areas.

### Condensed Summary of Revenues, Expenses and Changes in Net Assets

	<u>2006</u>
<b>Operating revenues (expenses)</b>	
Operating revenues	\$ 547,000
Operating expenses, excluding depreciation	<u>(991,000)</u>
Operating loss	<u>(444,000)</u>
<b>Non-operating revenues (expenses)</b>	
State grants and assistance	\$ 536,000
Federal grants and assistance	155,000
Investment income	<u>10,000</u>
Total non-operating revenues	<u>\$ 701,000</u>
Depreciation	<u>\$ 232,000</u>
Capital grant revenue	<u>\$ 36,000</u>
Increase in net assets during the year	61,000
Net assets, beginning of year	0
Net assets transferred upon formation	<u>1,046,000</u>
Net assets, end of year	<u>\$1,107,000</u>

## **Financial Operating Results**

### **Revenues -**

**State Grants and Assistance** – The Michigan Department of Transportation allocates funding for operating assistance based on expenses submitted by all Michigan transit agencies. Other specific grants are awarded as incentives to expand and enhance services to select clients.

**Federal Grants and Assistance** – The Authority utilized \$155,000 in Section 5311 operating funds to reimburse operational costs.

**Capital Grant Revenue** – The Authority received funds from the Michigan Department of Transportation to purchase additional vehicles for its operations. These funds are recognized as revenue after the final purchases are made and the reimbursement payment is received from MDOT, not when the funding is awarded to the Authority.

### **Expenses –**

**Services** – This account consists of legal fees, auditor's fees, management fees, and vehicle maintenance fees.

**Materials and Supplies** – Fuel and fluids for all vehicles account for the majority of this classification. Office and general maintenance supplies account for the remaining.

## **Request for Information**

This financial report is designed to provide a general overview of the Authority's finances for those with an interest in its finances. Questions concerning any of the information in this report or requests for additional financial information should be addressed to: Ronald J. Prell, General Manager, Thunder Bay Transportation Authority, 3020 US-23 South, Alpena, Michigan 49707.

**THUNDER BAY TRANSPORTATION AUTHORITY**

**Balance Sheet**

September 30, 2006

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 583,503	
Accounts receivable	60,217	
Total current assets		\$ 643,720

**CAPITAL ASSETS**

Vehicles	1,979,432	
Shop equipment	4,546	
Office furniture and fixtures	14,911	
Computer equipment	22,152	
Total capital assets	2,021,041	
Accumulated depreciation	(1,473,947)	
Net capital assets		547,094
		<u>\$ 1,190,814</u>

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$ 83,084
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**NET ASSETS**

Invested in capital assets	547,094	
Unrestricted	560,636	
Total net assets		1,107,730
		<u>\$ 1,190,814</u>

See accompanying notes to financial statements.

**THUNDER BAY TRANSPORTATION AUTHORITY**

Statement of Revenues, Expenses and Changes in Net Assets

For The Year Ended September 30, 2006

**OPERATING REVENUES**

Transit fares	\$ 547,102	
State operating assistance	531,554	
Project Zero	4,719	
Federal operating assistance	<u>155,254</u>	
Total operating revenues		\$ 1,238,629

**OPERATING EXPENSES**

Contract services - vehicle hours	609,055	
Contract services - maintenance	126,237	
Other maintenance, supplies and services	212,504	
Insurance	32,342	
Other operating expenses	11,133	
Depreciation	<u>231,986</u>	
Total operating expenses		<u>1,223,257</u>

**OPERATING INCOME**

15,372

**OTHER INCOME**

Non-transit income	12	
Capital grants - State	35,655	
Interest income	<u>10,489</u>	
Total other income		<u>46,156</u>

Change in net assets 61,528

**NET ASSETS**, beginning of the year 1,046,202

**NET ASSETS**, end of the year \$ 1,107,730

**THUNDER BAY TRANSPORTATION AUTHORITY**

**Statement Of Cash Flows**

**For The Year Ended September 30, 2006**

**OPERATING ACTIVITIES**

Change in net assets	\$	61,528	
Adjustments to reconcile change in net assets to net cash provided by operating activities			
Depreciation		231,986	
Change in operating assets and liabilities			
Accounts receivable		(16,279)	
State grants receivable		54,671	
Prepaid expenses		7,604	
Accounts payable		(42,104)	
Net cash provided by (used in) operating activities			\$ 297,406

**INVESTING ACTIVITIES**

Capital asset purchases	(33,424)
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**NET CHANGE IN CASH AND CASH EQUIVALENTS**

263,982

**CASH AND CASH EQUIVALENTS - beginning of year**

319,521

**CASH AND CASH EQUIVALENTS - end of year**

\$ 583,503

**SUPPLEMENTAL CASH FLOWS INFORMATION**

Interest paid	\$ -
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## THUNDER BAY TRANSPORTATION AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

September 30, 2006

#### NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

**Nature of Activities.** Thunder Bay Transportation Authority (TBTA or the Authority) is a Michigan governmental authority which provides bus transportation for individuals in a four county area. The counties served are Alpena, Alcona, Presque Isle and Montmorency. Transportation services are provided to governmental agencies by the Authority. Most services are provided by contract with a single independent contractor (see Note 2).

**Cash and Cash Equivalents.** For purposes of the statement of cash flows, the Authority considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

**Accounts Receivable.** The Authority uses the allowance method to determine bad debt expense for the year. The allowance is based on prior years' experience and management's analysis of specific accounts receivable from donors, government agencies, and other sources of support. The allowance for uncollectible accounts is zero as of September 30, 2006.

**Capital Assets.** The Authority routinely incurs costs for the purchase of and major improvements to vehicles and equipment, used in its operations. Management generally applies for and receives special grants from the State of Michigan to cover the cost of these capital outlays. The grants received from the State of Michigan are reported separately as revenue and the cost of purchases and major improvements of vehicles and equipment are recorded at cost when purchased. Property and equipment are depreciated using the straight line method over their estimated useful lives.

**Estimates.** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

#### NOTE 2. RELATED PARTIES

The Board of Directors of the Authority includes representatives of some of the government agencies who use the transportation services and also includes representatives of interested local governments. Board members serve the Authority without compensation.

The Authority paid Prell's Services for management and bookkeeping fees, storage fees and drivers and mechanics fees per an agreed upon contract for services provided by Prell's Services. The Authority also paid Prell's Services for maintenance of the equipment at standard mechanics labor rates and cost of parts. The contracts are renewed annually. Prell's Services is owned by the Authority's general manager. Accounts payable includes \$12,994 owed to Prell's Services at September 30, 2006.

#### NOTE 3. CONCENTRATION OF CREDIT RISK

Substantially all of the Authority's revenues are from the State of Michigan and various local nonprofit organizations and local governmental entities..

The Authority maintains its checking, savings and certificate of deposit cash accounts in financial institutions located in Alpena, Michigan. The balances are insured by Federal Deposit Insurance Corporation up to \$100,000. The Corporation's uninsured bank cash balances total \$430,000 at September 30, 2006. The amount that exceeds FDIC Insurance limits varies during the year.

**THUNDER BAY TRANSPORTATION AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2005

**NOTE 4. CHANGE IN ENTITY**

Effective October 1, 2005, Thunder Bay Transportation Authority (a governmental unit) was created and Thunder Bay Transportation Corporation (a nonprofit 501(c)(3)) ceased operations. All the assets, liabilities, and equity as of September 30, 2005, of the Corporation were transferred to the Authority.



*Certified Public Accountants*

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March 26, 2007

To the Board of Directors  
Thunder Bay Transportation Authority  
Alpena, Michigan

We have audited the financial statements of the Thunder Bay Transportation Authority (the Authority) for the year ended September 30, 2006, and have issued our report thereon dated November 30, 2006. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated November 13, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the Authority's internal control. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ending September 30, 2006. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Management's estimate of the useful lives of fixed assets for depreciation purposes is based on historical information and industry estimates. We evaluated the assumptions used to develop depreciation expense in determining that it is reasonable in relation to the basic financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the governmental unit's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Authority, either individually or in the aggregate, indicate matters that could have a significant effect on the Authority's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Reportable Conditions**

Reportable conditions involve matters coming to our attention, under standards established by the American Institute of Certified Public Accountants, relating to significant deficiencies in the design or operations of the internal control structure that, in our judgment, could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic of financial statements. We discovered no reportable conditions that should be reported to management. Our consideration of the internal control structure would not necessarily disclose all matters that might be reportable conditions.

We wish to thank the staff of the Thunder Bay Transportation Authority for their assistance during the audit.

This report is intended solely for the information and use of the Thunder Bay Transportation Authority Board of Directors, Michigan Department of Treasury, Management, and others within the governmental unit and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which upon acceptance by the Authority, is a matter of public record.

We appreciate the opportunity to serve the Authority. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

*Straley, Hsley & Lamp*